Farms for the Future, Phase 2

Selection Policy and Scoring System Guidance

ELIGIBILITY for a Cash Grant or the Recommendation to Apply for a Reduced-Interest Loan.

According to the rules an applicant must:

a) Have completed a business plan under the current or most recent round of Phase 1 of the Farms for the Future Program.
b) Own at least 5 acres of farmland that is currently in agricultural use.
c) Have at least 2 years' experience operating their Farm Business, either on their current farmland or elsewhere in Maine (required in Phase 1).

If applying for a Cash Grant, the Phase 2 applicant must be willing to sign a 7-year Farmland Protection Agreement before grant funds are awarded. If the farmland has already been protected by a permanent conservation easement, the applicant is only eligible for the Reduced-Interest Loan.

If granted the Recommendation to apply for the Reduced-Interest (2%) Loan, the Phase 2 applicant must be willing to complete the loan application for the Agriculture Marketing Loan Fund.

Maine's Farms for the Future Program (7 MRSA – 10-B) Rules, Chapter 36, Section 1.2:

Business Plan means a document that identifies changes in farm management practices and investments in equipment and property that would increase the profitability and net worth of the farm (vitality). A typical plan identifies ways to increase on-farm income through such methods as improved management practices, direct marketing, and value-added initiatives; and describes current operations and future plans for the business, including but not limited to sections on mission/vision, legal organization, management team, product descriptions, market research, market promotion, customer profiles, financial statements, financial analysis of planned changes in the business and long-term goals for the business.

Maine's Farms for the Future Program (7 MRSA – 10-B) Rules, Chapter 36, Section 1.6:

Farm Business means that the agricultural products grown or produced on a farm are being sold commercially and the farm has documentation of gross and net farm income, expenses, net worth and farm debt.

Maine's Farms for the Future Program (7 MRSA – 10-B) Rules, Chapter 36, Section 7.1:

A farm that has completed a Business Plan as defined above is eligible to apply for investment support funding to implement the Business Plan. The applicant may apply to be considered for either or both of two types of investment support grants. They may apply to receive the Department's recommendation *to apply for a reduced-interest (2%) loan from the Agricultural Marketing Loan Fund under Title 7, Chapter 101, Subchapter 1-D, and/or they may apply for an investment support cash grant in exchange for a Farmland Protection Agreement. If an applicant has previously permanently protected the farm with a conservation easement, then he or she is not eligible to apply for the investment support cash grant, but may apply to be recommended to apply for a reduced- interest (2%) loan. An applicant requesting an investment support cash grant in exchange for a Farmland Protection Agreement must own at least 5 acres of land in agricultural use at the time of application.*

SUITABILITY OF FARMS FOR PHASE 2

The Farms for the Future Review Panel reviews each applicant's Phase 1 business plan, and Phase 2 application to determine which farm projects are most likely to benefit from a public investment.

Whenever practicable, the Review Panel will award grants to applicants that represent a diversity of agricultural enterprise types and broad geographic distribution across the State.

When there is sufficient capital generated by off-farm enterprises, services or employment to fund implementation of the business plan, then the Review Panel may designate that particular farm as a lower priority for investment support grant funds.

Many factors shape a particular farm's suitability for Phase 2 investment support. In general, successful applicants *demonstrate confidence* that investments in the "new directions" described in their business plans *<u>will</u> lead to the increased viability* of their farm businesses.

Phase 2 applicants should be able to demonstrate:

- Control over the land and resources associated with the business plan that will be protected by the 7-year Farmland Protection Agreement.
- Autonomy to make farm management decisions (i.e. no outstanding legal situations, or family members with veto power, preventing forward progress).
- A commitment to farming as a primary lifestyle and income source.
- A clear description of the farm's management and/or marketing plan.
- A reasonable balance of projected income, debt, and risk in the future.
- Compelling evidence that the proposed project and new direction will increase the farm's viability.
- Knowledge of relevant agricultural industries.
- A positive attitude and evidence of a thorough and honest analysis of a variety of options for future directions for the farm.
- An interest in and ability to make fundamental changes to the farm enterprise, where necessary.
- A high likelihood of success if assisted with public investment to implement the business plan.

Phase 2: Selection Criteria and Scoring System

Selection Criteria		Total Possible Points for Each
1. The Business Plan (completeness)		5 points
2. Character (Management Capacity)		20 points
3. Financial Capacity (Debt Management)		10 points
4. Farm Vitality and Development of New Capital		30 points
5. Collateral (Asset Base)		20 points
6. Other Conditions		
	Broader conservation objectives	*5 points*
	The percentage of the farmland to be protected	*5 points*
	Degree of change	*5 points*
Total		**100**

1. The Business Plan (Maximum Points = 5)

This criterion evaluates whether the business plan is complete, as defined by the Rules for Farms for the Future Program:

> *A document that identifies changes in farm management practices and investments in equipment and property that would increase the profitability and net worth of the farm (vitality). A typical plan identifies ways to increase on-farm income through such methods as improved management practices, direct marketing, and value-added initiatives; and describes current operations and future plans for the business, including but not limited to sections on mission/vision, legal organization, management team, product descriptions, market research, market promotion, customer profiles, financial statements, financial analysis of planned changes in the business and long-term goals for the business.*

RECOMMENDED CATEGORIES FOR THE PLAN ARE:

- Vision and/or mission statement
- Goals and objectives
- Sector profile and trends
- Business description and legal form of organization
- Product and/or service descriptions
- Market and customer analysis
- Sales forecasts and strategies
- Promotion plan
- Competitive analysis
- Management and personnel plan
- Risk management
- Growth and exit strategy
- Production and operation plan
- Legal and regulatory plans
- Suppliers and advisors
- Proposed projects and changes
- Sources and uses of funds
- Cash flow – current and projected (at least 3 years total)
- Cash flow narrative and assumptions
- Profit and Loss – historic, current, projected (at least 3 years total, far enough ahead to see impact of changes)
- Balance sheet (current and projected)
- Worst and best case analysis
- Debt schedule
- Appendix

LOWER SCORE 0	HIGHER SCORE 5
The business plan falls severely short of providing information in all of the above categories.	The business plan includes clear and complete information in all of the above categories. *(The plan acknowledges when a particular category does not apply to a specific farm.)*

Program Rules – Chapter 36, Section 7.2.A.: "To be selected for the investment support program, an applicant must … submit… a written Business Plan that … satisfies the definition in Section 1 and requirements in Section 6 above."

2. Character, or Management Capacity (Maximum Points = 20)

This criterion evaluates the applicant's knowledge, experience and capability to successfully plan and implement changes leading to business viability. Evaluation is based the qualifications, knowledge and readiness of the farm owners and management personnel. Evaluation is based on the information provided throughout the plan, but in particular the information from the **Management Plan** section.

LOWER SCORE 0	HIGHER SCORE 20
• The applicant does not have enough experience and training in farming to show that they will be able to plan and implement farm changes. • The applicant's management plan is not clear or realistic. • Unclear or questionable qualifications for the people who will be implementing the plan. • The applicant has not adequately described management changes or transitions necessary for the growth or exit strategy of the business.	• The management and personnel sections demonstrate that the applicant is capable of judging his/her own abilities, observing industry trends, planning and implementing transformative projects, managing personnel, and maintaining business relationships with lenders, suppliers, customers, and industry peers. • Evidence of knowledge and management capability is clear in the way the applicant describes the farm and the vision for change. • The applicant has clearly and compellingly described, from an owner/manager's perspective, why the project will benefit the farm. • The applicant has demonstrated that their family and

	employees are on board and that there is a commitment to the project and the new directions described in the Business Plan. • The applicant's management plan identifies and supports farm transition to new management through intergenerational transfer or other suitable ways.

Program Rules – Chapter 36, Section 7.2.B.: "To be selected for the investment support program, an applicant must … submit a written Business Plan that … provides evidence of the applicant's knowledge, experience and management capacity to successfully plan and implement the proposed changes to the Farm Business."

3. Financial Capacity (Maximum points = 10)

This criterion evaluates the impact of the proposed changes on the farm's debt load. Will the proposed project and changes improve the cash flow and the management of debt, even if new debt is required? All assumptions underlying the applicant's debt management goals and growth projections in the financial sections must be clear and realistic. Evaluation is based on the following categories:

- Proposed projects and changes
- Sources and uses of funds
- Cash flow – current and projected (at least 3 years total)
- Cash flow narrative and assumptions
- Profit and Loss – historic, current, projected (at least 3 years total, far enough ahead to see impact of changes)
- Balance sheet (current and projected)
- Debt schedule
- Identification of the current debt load relative to earnings and/or assets

This information is found in the following sections of the business plan: Proposed Projects and Changes, Sources and Uses of Funds, Financial Analysis.

LOWER SCORE 0	**HIGHER SCORE** 10
Applicant does not provide any information about debt. The role of debt on the farm is not	The applicant clearly states the current financial condition of the business, identifies debts and assets, and demonstrates that the

clear at all.	proposed project can be financially well-managed and will ultimately improve the farm's debt-to-asset ratio.
The farm is struggling to manage the current debt load or lack of profitability and there is low likelihood that course can be corrected with the proposed project and support.	The applicant demonstrates that the farm can manage the current debt load or lack of profitability. Even if the farm is struggling to manage the current debt load or lack of profitability, there is high likelihood that their course can be corrected with support for the proposed project.
The applicant's goals, preferences, or attitude about debt are incompatible with the proposed project.	The applicant's preferences or attitude about debt seem compatible with proposed idea for change, and supporting the project will help.

Program Rules – Chapter 36, Section 7.2.C.: "To be selected for the investment support program, an applicant must … submit a written Business Plan that demonstrates…the proposed changes to the Farm Business will improve the cash flow thereby improving the management of debt load needed to pay any new debt associated with the proposed change(s) to the Farm Business."

4. Farm Vitality and Development of New Capital (Maximum Points = 30)

This criterion evaluates the degree to which the proposed project and changes will make the farm more viable, in relation to the applicant's long-term vision for the farm business. To invest public resources well and wisely, the Review Panel considers whether the proposed project increases the farm's profitability and net worth and therefore improves the sustainability of the farm enterprise. Evaluations will be based on ALL parts of the business plan, including the financial, marketing, management and operations sections.

According to the Definitions within the FFF program, "Vitality" means an increase in long-term, maintainable, farm profitability and net worth.

LOWER SCORE 0	← →	**HIGHER SCORE 30**
Marketing strategy is not likely to lead to long term farm vitality		Business plan demonstrates that farm is taking advantage of marketing opportunities that will improve farm vitality and buffer against market threats
The project's production efficiencies do not improve and potentially hinder farm vitality	The project's production efficiencies contribute somewhat to increased farm vitality, but clearly could be	Business plan demonstrates production efficiencies that will improve farm vitality

OR The business plan does not demonstrate how production efficiencies will improve farm vitality.	improved.	
Business plan does not indicate any improvements to facilities, land and/or equipment necessary to improve farm vitality	Business plan indicates modest improvements to facilities, land and/or equipment necessary for improved farm vitality	Business plan indicates clear improvement (or very strong potential for improvement) to facilities, land and/or equipment necessary for improved farm vitality
Balance sheets indicate clear decrease (or strong potential for decrease) in net worth as a result of the project	Balance sheets demonstrate moderate increase (or potential for increase) in net worth as a result of the project	Balance sheets demonstrate clear increase (or very strong potential for increase) in net worth as a result of the project
The applicant has provided little or no information about farm revenue and profitability. OR The financial information clearly does not demonstrate progress toward viability	The applicant's farm revenue and profitability information is incomplete or incomprehensible. OR The applicant's farm revenue and profitability information does not clearly demonstrate progress toward viability.	Business plan, especially financial section, clearly demonstrates that farm revenues and profitability will progress toward viability.
The proposed project poses a high degree of threat to profitability.	The proposed project takes a farm that is currently viable and makes it even more viable.	The proposed project takes a farm that is not viable (can't sustain itself, always requires outside infusion of cash or inputs, will not survive changes in markets, regulation, or dynamic business environment) and clearly sets it on a path to viability.
The applicant clearly does not intend to work towards viable farming as a primary activity or income source. The farm enterprise will not likely be sustainable even with the proposed project.		The farm is the primary source of income, and the applicant intends to remain in farming. OR The applicant clearly intends to make the farm business income the primary source of income within 5 years or so.

Program Rules – Chapter 36, Section 7.2.D.: "To be selected for the investment support program, an applicant must … submit a written Business Plan… that demonstrates…through better strategies, marketing, production efficiencies and upgrading of facilities and equipment, an increase in profitability and overall net worth that will improve the overall sustainability of the Farm Business."

5. Collateral, or Asset Base (Maximum Points – 20)

This criterion evaluates the proposed project's impact on farmland productivity, and the physical condition of buildings, equipment, and other assets. The Review Panel will consider the potential impact of the business plan on environmental and economic sustainability of land, buildings, equipment, and ability to sufficiently maintain any newly acquired assets. Evaluations will be based on the Production & Operation Plan and Proposed Projects & Changes sections of the business plan.

LOWER SCORE 0		**HIGHER SCORE** 20
The farmland has poor quality soils and is unsuitable for supporting the idea for change.	The farmland is in moderate condition or somewhat suitable for the idea for change.	The farmland is in moderate to excellent condition, and suitable for the proposed idea.
The applicant does not describe farm buildings and equipment.	Prior to Phase 1 entry, the applicant acquired buildings and equipment and most of what is needed for the proposed project.	The applicant does not already have buildings and equipment or most of what they need for their proposed project, but acquiring it seems reasonable and realistic, and Phase 2 support would clearly help.
The farm's asset base is nonexistent or in such poor shape that change idea or business planning will not overcome the challenges at hand.	The applicant does not have most of what is needed for the proposed project, and acquiring what is needed seems challenging, but business planning would help. OR, the applicant has some of what they need, but the condition is poor or marginal and they will need to improve it.	The asset base and land conditions indicate that the idea for change offers considerable potential for improvement.

Program Rules – Chapter 36, Section 7.2.E.: "To be selected for the investment support program, an applicant must … submit a written Business Plan… that demonstrates… that the farm operations will improve the productivity of the land (soil quality, fertility, water holding capacity), and the physical condition of the buildings and equipment, and sufficiently maintain any newly acquired assets to increase the overall sustainability of the Farm Business."

6. **Other Conditions (Maximum Points = 15)**

This criterion evaluates the degree of impact that the proposed project would have on the farmland and the local community.

Evaluation will be based on:

- How the proposed farm operations will accomplish broader conservation objectives such as…
    - protecting water quality,
    - improving wildlife habitat,
    - maintaining open space,
    - maintaining local scenic and cultural amenities,
    - maintaining or enhancing local/regional agricultural infrastructure,
    - maintaining or enhancing local community assets,

  …providing that such practices enhance or maintain the profitability of the farm. *5 points*

- The percentage of the farmland owned by the applicant that is to be protected under the 7-year Farmland Protection Agreement. *5 points.*

This criterion also determines:

- The degree to which the project represents change that is new and different to the business, as opposed to a standard upgrade or operating expense that could be assisted or funded through other available channels. *5 points*

Evaluation will be based on information from your Phase 2 Application and the Proposed Projects & Changes section of your business plan.

LOWER SCORE 0		**HIGHER SCORE** 15
No development pressure on the farmland.	Moderate development pressure on the farmland.	High development pressure on the farmland.
No environmental benefit from the proposed change.	Some environmental benefit from the proposed change.	High environmental benefit from the proposed change.
No regional or community benefit from the proposed change.	Some regional or community benefit from the proposed change.	High regional or community benefit from the proposed change.
Low number of total protected acres operated or low percentage of acres owned to acres operated.	Medium number of total protected acres operated or moderate percentage of acres owned to acres operated.	High number of total protected acres operated or high percentage of acres owned to acres operated.
The proposed "change" is a not a true change. It is a typical operating expense (i.e. rebuild a barn and keep the business the same).	The proposed "change" is a standard business expansion (i.e. add a few more cows).	The applicant seeks to make a fundamental change that is essential to the long-term viability (i.e. adopt a new management structure, bring in transformative technology, diversify products or markets, seek

		fundamental production efficiencies, begin to make 100% living from farming activity)

Program Rules – Chapter 36, Section 7.2.F:: "To be selected for the investment support program, an applicant must … submit a written Business Plan… that demonstrates… 1. how the current or proposed farm operations will accomplish broader conservation objectives such as protecting water quality, improving wildlife habitat, or maintaining open space and local scenic and cultural amenities as long as such practices enhance or maintain the profitability of the farm. 2. The percentage of farmland…to be protected under the Farmland Protection Agreement. 3. The degree to which the change in the business is new and different to the business."